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Section 6

Fiscal Practices

DELAWARE



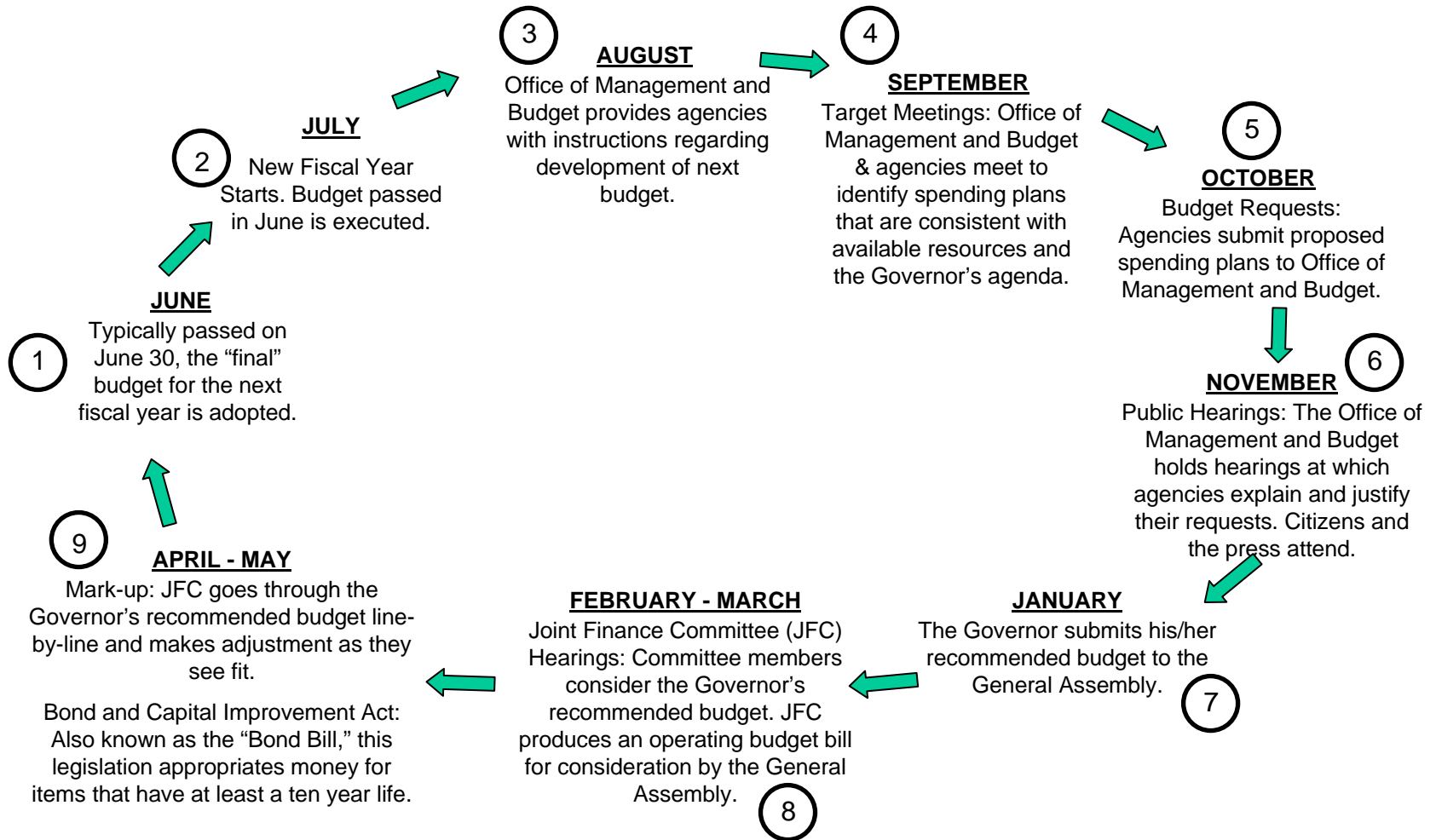
FISCAL NOTEBOOK

2006 Edition

*Department of
Finance*

The Operating Budget Cycle

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The Delaware Economic & Financial Advisory Council (DEFAC)

HISTORY

In 1977 Governor Dupont issued an Executive Order creating the Delaware Economic and Financial Advisory Council (DEFAC). Envisioned as a tool to improve the State's fiscal management practices, DEFAC was conceived to advise the Governor and Secretary of Finance with respect to:

- The State's overall financial condition,
- Tax policy,
- Debt management issues, and
- Current and projected trends in the national and local economies that may affect the State.

Finally, and perhaps most importantly, the Council was charged with providing non-partisan and objective revenue and expenditure estimates to the Governor and General Assembly. The revenue estimates are intended to meet the requirements of Title 29, §6534 of the Delaware Code, which states:

The Governor shall submit to all members of the General Assembly and the Controller General an estimate of anticipated General Fund revenues by major categories for the current and next immediate fiscal year. Such report shall be made no later than the 25th day of September, December, March, April, and May, and the 20th day of June.

In addition, DEFAC forecasts Transportation Trust Fund revenues and expenditures and its members are occasionally called upon to advise policymakers with respect to unique fiscal or economic issues facing the State.

Over the years, DEFAC, by providing State officials with conscientious, non-partisan guidance, has operated in a manner consistent with the fiscal blueprint conceived in 1977. Because both the Governor and General Assembly accept DEFAC's revenue projections as "the estimate," others recognize the DEFAC process as a model for eliminating politics from revenue and expenditure estimates.

DEFAC STRUCTURE

DEFAC is currently comprised of 30 members representing academia and the business community as well as the General Assembly and executive branch of state government. DEFAC's chairperson is Robert Byrd. DEFAC has two standing subcommittees: The Revenue Subcommittee (chaired by Ken Lewis) and the Expenditure Subcommittee (chaired by Lindsay Davis Burnham). The State Department of Finance provides staff support to DEFAC.

Beginning with the Executive Order issued by Governor Carper in 1993, DEFAC is required to prepare annual five-year forecasts. The long-term forecast is presented at the September meeting and is intended to provide policymakers with an early warning system with respect to long-term fiscal challenges and opportunities.

DEFAC traditionally meets on the third Monday of the designated months. The Subcommittees often meet on the prior Friday to deliberate on economic and fiscal trends and to prepare a report for the full Council meeting. Mr. Byrd presides over the meeting of the full Council. Typically, meetings begin with the approval of minutes followed by Expenditure and Revenue Subcommittee estimate presentations. The subcommittee reports are debated and revised, if necessary. Once approved, the results of these presentations are used to determine key elements of the following fiscal year's budget. DEFAC estimates are the basis for:

- The amount of General Obligation debt the State may issue,
- The funding level required for the State's "Rainy Day Fund," and
- Estimated revenues and cash carryover, which together determine the maximum size of the operating budget.

A similar process takes place for the Transportation Trust Fund. Revenue and expenditure estimates are presented and reviewed and they, too, provide the basis for the subsequent fiscal year's operating and capital budgets.

2007 MEETING DATES

According to the terms set forth in the Delaware Code and Governor Minner's Executive Order Number 5, DEFAC's tentative meeting dates for 2007 are as follows:

- March 19, 2007
- April 16, 2007
- May 21, 2007
- June 18, 2007
- September 17, 2007
- December 17, 2007

These dates may be subject to change. DEFAC's Chairperson may also schedule additional meetings.

FISCAL REGULATORS

The following practices govern Delaware's financial operations:

State Fiscal Year – The state fiscal year runs from July 1 through June 30.

Appropriation Limit – Frequently referred to as the “98% rule,” the State Constitution restricts annual appropriations to 98 percent of the sum of estimated revenues plus the unencumbered General Fund balance from the previous year. To appropriate more than the 98% of available resources, the Legislature must declare an emergency.

Debt Limit – Delaware's borrowing practices are governed by a three restrictions:

1. Frequently referred to as the “five percent rule,” the amount of new tax supported obligations of the State that may be authorized in one fiscal year may not exceed five percent of the estimated net General Fund revenue for that year.
2. No tax-supported obligations of the State and no transportation trust fund (TTF) debt obligations may be incurred if the aggregate maximum annual payments on all such outstanding obligations exceed 15 percent of the estimated General Fund and TTF revenue.
3. No general obligation debt may be incurred if the maximum annual debt service payable in any fiscal year on all such outstanding obligations will exceed the estimated cumulative cash balances.

Budget Reserve Account – Also known as the “Rainy Day Fund,” within 45 days after the end of any fiscal year, the excess of any unencumbered funds remaining from said fiscal year shall be paid by the Secretary of Finance into the Budget Reserve Account, provided, however, that no such payment will be made which would increase the total of the Budget Reserve Account to more than five percent of the estimated General Fund revenues. The General Assembly, by three-fifths vote of the elected members of each house, may appropriate from the Budget Reserve Account such additional sums as may be necessary to fund any unanticipated deficit in any given fiscal year or to provide funds required as a result of any revenue reduction enacted by the General Assembly.